

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF BALDWIN	County IOSCO
Fiscal Year End 03/31/2007	Opinion Date 06/25/2007	Date Audit Report Submitted to State 08/31/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

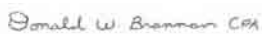
YES
NO

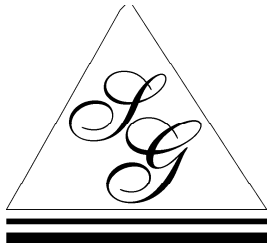
Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.		Telephone Number (989)362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State MI
Zip 48730			
Authorizing CPA Signature  Signature Valid	Printed Name DONALD W. BRANNAN	License Number 1101021039	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

TOWNSHIP OF BALDWIN
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2007

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 7

BASIC FINANCIAL STATEMENTS**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

EXHIBIT A	STATEMENT OF NET ASSETS	8
EXHIBIT B	STATEMENT OF ACTIVITIES	9

FUND FINANCIAL STATEMENTS

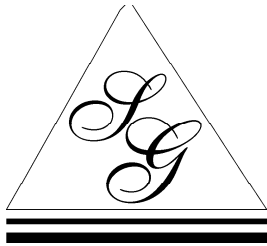
EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUNDS	10
EXHIBIT D	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	11
EXHIBIT E	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	12
EXHIBIT F	RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	13
EXHIBIT G	STATEMENT OF NET ASSETS - PROPRIETARY FUND	14
EXHIBIT H	STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND	15
EXHIBIT I	STATEMENT OF CASH FLOWS - PROPRIETARY FUND	16
EXHIBIT J	STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUND	17
EXHIBIT K	NOTES TO FINANCIAL STATEMENTS	18 - 35

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT L	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	36
EXHIBIT M	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - ROAD FUND - SPECIAL REVENUE FUND	37
EXHIBIT N	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIRE FUND - SPECIAL REVENUE FUND	38
EXHIBIT O	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - REFUSE COLLECTION FUND - SPECIAL REVENUE FUND	39
EXHIBIT P	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DOWNTOWN DEVELOPMENT AUTHORITY FUND - SPECIAL REVENUE FUND	40

OTHER INFORMATION**COMBINING STATEMENTS - NONMAJOR FUNDS**

EXHIBIT Q	COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	41
EXHIBIT R	COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	42
	REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	43 - 44



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

June 25, 2007

Independent Auditors' Report

Members of the Township Board
Township of Baldwin
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Baldwin, Iosco County, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Baldwin, Iosco County, Michigan, as of March 31, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007, on our consideration of the Township of Baldwin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Baldwin's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

BALDWIN TOWNSHIP

1119 Monument Road
Tawas City, MI 48763
989-362-3742

Jim Svoboda – Supervisor
Jean Davison – Clerk
Andrea Schmidt – Treasurer

Tom Meyer - Trustee
Craig Prescott - Trustee

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Township of Baldwin's (the Township) financial performance provides an overview of the Township's financial activities for the year ended March 31, 2007. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Financial Highlights

- The Township's assets exceeded its liabilities by \$6,959,608.
- The Township's total net assets increased by \$395,004.
- The Township's governmental funds reported a combined ending fund balance of \$1,470,864 this year, an increase of \$128,824. The entire amount is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township's General Fund 2007 year end *fund balance* is \$403,248.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government except for its' fiduciary fund. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets and infrastructure are listed for the Township of Baldwin. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure and land owned by the Township. These assets total over \$5 million. The Township performed an inventory and evaluation of assets over \$5,000 and categorized a depreciation schedule for assets not fully depreciated.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Road Fund – This fund accounts for the street operations of the Township. Revenues are derived primarily from a special voted tax for street improvements.
- Fire Fund – This fund accounts for tax revenues used for fire protection of the Township.
- Refuse Collection Fund – This fund is used to account for tax revenue used for refuse collection in the Township.
- Downtown Development Authority Fund – This fund is used to account for tax revenues used for construction and improvements.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise fund may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following is the Township's major enterprise fund:

- Water and Sewer Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Baldwin Township as well as the Township's financial participation in the Huron Shore Regional Utility Authority. This fund also accounts for the revenues and expenditures required to operate the Township's sewer system including all related appurtenances such as mains and pump stations. Revenues required to operate both systems are derived primarily from user fees.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes and fines and forfeitures collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. Exhibit K notes 1 – 11 provide an expansive and thorough view of various aspects of the audited financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual nonmajor fund statements.

Government -Wide Financial Analysis**Summary of Net Assets:**

The following summarizes the net assets of the Township of Baldwin at March 31, 2007 and 2006:

Net Assets Summary

	Governmental Activities	Business -Type Activities	March 31, 2007	March 31, 2006
Current Assets	\$ 1,479,750	\$ 2,899,239	\$ 4,378,989	\$ 4,284,218
Capital Assets – net	306,955	3,626,732	3,933,687	3,954,995
Other Noncurrent Assets	<u>0</u>	<u>509,548</u>	<u>509,548</u>	<u>492,983</u>
Total Assets	<u>1,786,705</u>	<u>7,035,519</u>	<u>8,822,224</u>	<u>8,732,196</u>
Current Liabilities	8,886	52,522	61,408	55,922
Long-Term Liabilities	<u>2,423</u>	<u>1,798,785</u>	<u>1,801,208</u>	<u>2,111,670</u>
Total Liabilities	<u>11,309</u>	<u>1,851,307</u>	<u>1,862,616</u>	<u>2,167,592</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	304,532	1,946,530	2,251,062	2,009,704
Unrestricted	<u>1,470,864</u>	<u>3,237,682</u>	<u>4,708,546</u>	<u>4,554,900</u>
Total Net Assets	<u>\$ 1,775,396</u>	<u>\$ 5,184,212</u>	<u>\$ 6,959,608</u>	<u>\$ 6,564,604</u>

Summary of Changes in Net Assets:

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Township of Baldwin, through its governing body, i.e., Township Board of Trustees, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's practice, in general, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Program Revenues:				
Charges for Services	\$ 44,825	\$ 389,811	\$ 434,636	\$ 379,015
Operating Grants and Contributions	3,374	0	3,374	9,064
Capital Grants and Contributions	<u>12,533</u>	<u>0</u>	<u>12,533</u>	<u>17,700</u>
Total Program Revenues	<u>60,732</u>	<u>389,811</u>	<u>450,543</u>	<u>405,779</u>
General Revenues:				
Property Taxes	395,629	52,811	448,440	423,015
State Revenue Sharing	117,786	0	117,786	117,608
Investment Earnings and Miscellaneous	<u>53,557</u>	<u>145,328</u>	<u>198,885</u>	<u>150,096</u>
Total General Revenues	<u>566,972</u>	<u>198,139</u>	<u>765,111</u>	<u>690,719</u>
Total Revenues	<u>627,704</u>	<u>587,950</u>	<u>1,215,654</u>	<u>1,096,498</u>
Program Expenses:				
General Government	146,696	0	146,696	144,860
Public Safety	78,012	0	78,012	73,818
Public Works	189,372	0	189,372	197,150
Community and Economic Development	11,987	0	11,987	25,872
Recreation and Cultural	380	0	380	425
Other	13,740	0	13,740	15,862
Water and Sewer Services	<u>0</u>	<u>380,463</u>	<u>380,463</u>	<u>363,082</u>
Total Program Expenses	<u>440,187</u>	<u>380,463</u>	<u>820,650</u>	<u>821,069</u>
Change in Net Assets	187,517	207,487	395,004	275,429
Beginning Net Assets	<u>1,587,879</u>	<u>4,976,725</u>	<u>6,564,604</u>	<u>6,289,175</u>
Ending Net Assets	<u>\$ 1,775,396</u>	<u>\$ 5,184,212</u>	<u>\$ 6,959,608</u>	<u>\$ 6,564,604</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$60,732 from *Charges for Service, Operating Grants and Contributions*, and *Capital Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fines and forfeitures, and licenses & permits. Operating expenses totaled \$440,187 for these same activities. The largest expenses were incurred by General Government offices (\$146,696) and Public Works (\$189,372).

Business-Type Activities

The Township's main *Business-Type activities* are the Water and Sewer Services. For the most part, Water and Sewer Fund revenues and expenditures reflected maintenance of the status quo as compared to past years. An exception to this observation was an increase in the number of users, which increased revenues for *Charges for Services*.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue; 2) Road Fund – This fund accounts for the street operations of the Township. The primary sources of revenue is from a special voted tax for street improvements; 3) Fire Fund – This fund accounts for the fire protection activity of the Township. Revenues are derived primarily from property taxes; 4) Refuse Collection Fund – This fund accounts for the collection of refuse in the Township. Revenues are derived primarily from property taxes; and 5) Downtown Development Authority Fund – This fund represents construction and improvements in the Township. Revenues are derived primarily from property taxes.

This year's Township audit, following GASB 34 format, shows 10 funds. The Township Treasurer maintains these funds as separate units in the General Ledger.

Enterprise Funds

The Township's enterprise fund provides the same type of information found in the government-wide financial statements. The Water and Sewer services comprise this fund. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

Budgetary Highlights

Fiscal year 2007 saw the Township's General Fund fund balance increase from \$392,935 to \$403,248. This was caused by the Township keeping tabs on expenditures. The Road Fund had an increase in fund balance in the current year from \$97,069 to \$98,604. The new Parks and Recreation Fund had an ending fund balance of \$9,884, which was mainly due to a transfer from the General Fund. The Capital Improvement Fund fund balance went from \$32,835 to \$54,052, an increase of \$21,217, which was mainly due to a transfer from the General Fund. The Fire Fund fund balance went from \$111,457 to \$131,275. This was an increase of \$19,818. This was in line with the prior year increase of \$14,720. The Refuse Collection Fund fund balance went from \$234,663 to \$252,183, an increase of \$17,520. The Downtown Development Authority Fund fund balance went from \$469,471 to \$517,755, an increase of \$48,284. This was an increase from the previous year due to a decrease in expenses for completing infrastructure projects in the DDA area. The Water and Sewer Funds were combined in the current year and, in total, net assets increased by \$207,487. Some of the increase was from payoffs of special assessments and because of two major charges for connection fees.

Capital Asset and Debt Administration

Capital Assets

The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$273,178 with an ending balance of \$340,944. Governmental Activities Total Capital Assets – Net of Depreciation was \$306,955.

Capital Assets - Business Type Activities beginning balance was \$4,773,871 with an ending balance of \$4,790,191. Business-Type Activities Total Capital Assets – Net of Depreciation was \$3,626,732. An expanded and detailed presentation may be seen in Note 6 of the notes to financial statements.

At year's end, long-term debt (due in more than one year) amounted to \$1,587,067. Such debt includes *Contracts Payable, Bonds Payable, and Capital Lease Payable*.

Economic Factors

The Township Board continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The Township property tax revenues account for approximately 41% of the Township General Fund Revenues.

Revenue sharing from the State of Michigan is the greatest source of revenue for the Township's General Fund at approximately 48%. As the revenue estimates continue to decline at the state level the Township may lose funds that are currently budgeted. The Township has been able to operate in a streamlined manner, thus building up the General Fund balance over the past three years to prepare for any reductions that may occur.

The major expenditures for the Township General Fund are for General Government activities followed by the Planning Commission, Insurance, and Street lighting activities.

The Township Board monitors the revenue and expenditures throughout the year and takes appropriate action when the economic factors dictate a change.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township of Baldwin, 1119 Monument Road, Tawas City, Michigan, 48763.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF NET ASSETS
March 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 1,373,974	\$ 1,116,094	\$ 2,490,068
Investments (Note 2)	16,005	973,841	989,846
Receivables:			
Taxes	95,430	2,536	97,966
Special assessments	0	768,216	768,216
Accounts	0	32,488	32,488
Due from local units	402	0	402
Due from fiduciary funds (Note 3)	3	0	3
Internal balances	(6,064)	6,064	0
Total current assets	<u>1,479,750</u>	<u>2,899,239</u>	<u>4,378,989</u>
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	476,341	476,341
Bond issuance costs, net	0	33,207	33,207
Capital assets, net (Note 6)	<u>306,955</u>	<u>3,626,732</u>	<u>3,933,687</u>
Total noncurrent assets	<u>306,955</u>	<u>4,136,280</u>	<u>4,443,235</u>
Total Assets	<u>1,786,705</u>	<u>7,035,519</u>	<u>8,822,224</u>
<u>Liabilities</u>			
Accounts payable	8,874	11,735	20,609
Accrued interest	0	40,787	40,787
Accrued liabilities	12	0	12
Long-term liabilities:			
Due within one year (Note 7)	966	213,175	214,141
Due in more than one year (Note 7)	<u>1,457</u>	<u>1,585,610</u>	<u>1,587,067</u>
Total Liabilities	<u>11,309</u>	<u>1,851,307</u>	<u>1,862,616</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	304,532	1,946,530	2,251,062
Unrestricted	<u>1,470,864</u>	<u>3,237,682</u>	<u>4,708,546</u>
Total Net Assets	<u>\$ 1,775,396</u>	<u>\$ 5,184,212</u>	<u>\$ 6,959,608</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2007

Function/Program	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 146,696	\$ 39,100	\$ 0	\$ 0	\$ (107,596)	\$ 0	\$ (107,596)
Public safety	78,012	0	0	0	(78,012)	0	(78,012)
Public works	189,372	5,657	3,374	12,533	(167,808)	0	(167,808)
Community and economic development	11,987	68	0	0	(11,919)	0	(11,919)
Recreation and cultural	380	0	0	0	(380)	0	(380)
Other	13,740	0	0	0	(13,740)	0	(13,740)
Total governmental activities	<u>440,187</u>	<u>44,825</u>	<u>3,374</u>	<u>12,533</u>	<u>(379,455)</u>	<u>0</u>	<u>(379,455)</u>
Business-type activities:							
Water and sewer services	<u>380,463</u>	<u>389,811</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,348</u>	<u>9,348</u>
Total primary government	<u>\$ 820,650</u>	<u>\$ 434,636</u>	<u>\$ 3,374</u>	<u>\$ 12,533</u>	<u>\$ (379,455)</u>	<u>\$ 9,348</u>	<u>\$ (370,107)</u>
General Revenues:							
Property taxes levied for:							
General operating					65,648	0	65,648
Fire protection					91,609	0	91,609
Refuse collection					100,026	0	100,026
TIFA					95,430	0	95,430
Roads					42,916	0	42,916
Water debt service					0	52,811	52,811
State revenue sharing					117,786	0	117,786
Interest and investment earnings					52,538	141,696	194,234
Other					1,019	3,632	4,651
Total general revenues					<u>566,972</u>	<u>198,139</u>	<u>765,111</u>
Change in net assets					187,517	207,487	395,004
Net assets - beginning of year					<u>1,587,879</u>	<u>4,976,725</u>	<u>6,564,604</u>
Net assets - end of year					<u>\$ 1,775,396</u>	<u>\$ 5,184,212</u>	<u>\$ 6,959,608</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
March 31, 2007

	<u>General</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Refuse Collection Fund</u>	<u>Downtown Development Authority Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Cash and cash equivalents (Note 2)	\$ 389,707	\$ 99,600	\$ 150,958	\$ 261,129	\$ 404,781	\$ 67,799	\$ 1,373,974
Investments (Note 2)	16,005	0	0	0	0	0	16,005
Taxes receivable	0	0	0	0	95,430	0	95,430
Due from local units	402	0	0	0	0	0	402
Due from other funds (Note 3)	<u>5,880</u>	<u>1,005</u>	<u>2,131</u>	<u>3,298</u>	<u>17,544</u>	<u>0</u>	<u>29,858</u>
Total Assets	<u>\$ 411,994</u>	<u>\$ 100,605</u>	<u>\$ 153,089</u>	<u>\$ 264,427</u>	<u>\$ 517,755</u>	<u>\$ 67,799</u>	<u>\$ 1,515,669</u>
<u>LIABILITIES AND FUND EQUITY</u>							
<u>Liabilities</u>							
Accounts payable	\$ 1,292	\$ 0	\$ 0	\$ 7,582	\$ 0	\$ 0	\$ 8,874
Accrued liabilities	12	0	0	0	0	0	12
Due to other funds (Note 3)	<u>7,442</u>	<u>2,001</u>	<u>21,814</u>	<u>4,662</u>	<u>0</u>	<u>0</u>	<u>35,919</u>
Total liabilities	<u>8,746</u>	<u>2,001</u>	<u>21,814</u>	<u>12,244</u>	<u>0</u>	<u>0</u>	<u>44,805</u>
<u>Fund Equity</u>							
Fund balances:							
Unreserved:							
Designated for parks and recreation	0	0	0	0	0	9,884	9,884
Undesignated, reported in:							
General fund	403,248	0	0	0	0	0	403,248
Special revenue funds	<u>0</u>	<u>98,604</u>	<u>131,275</u>	<u>252,183</u>	<u>517,755</u>	<u>57,915</u>	<u>1,057,732</u>
Total fund equity	<u>403,248</u>	<u>98,604</u>	<u>131,275</u>	<u>252,183</u>	<u>517,755</u>	<u>67,799</u>	<u>1,470,864</u>
Total Liabilities and Fund Equity	<u>\$ 411,994</u>	<u>\$ 100,605</u>	<u>\$ 153,089</u>	<u>\$ 264,427</u>	<u>\$ 517,755</u>	<u>\$ 67,799</u>	<u>\$ 1,515,669</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
March 31, 2007

Total governmental fund balances		\$ 1,470,864
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 340,944	
Capital asset accumulated depreciation	<u>(33,989)</u>	
		306,955
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Capital lease payable		<u>(2,423)</u>
Total net assets - governmental activities		<u>\$ 1,775,396</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended March 31, 2007

	General	Road Fund	Fire Fund	Refuse Collection Fund	Downtown Development Authority Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>							
Taxes	\$ 102,627	\$ 42,916	\$ 91,609	\$ 100,026	\$ 95,430	\$ 0	\$ 432,608
Licenses and permits	1,945	0	0	0	0	0	1,945
State grants and revenue	121,160	0	0	0	0	0	121,160
Contributions from local units	0	0	0	0	12,533	0	12,533
Charges for services	6,244	5,657	0	0	0	0	11,901
Interest earned	16,952	3,557	3,805	8,665	17,690	1,869	52,538
Other revenue	1,019	0	0	0	0	0	1,019
Total revenue	<u>249,947</u>	<u>52,130</u>	<u>95,414</u>	<u>108,691</u>	<u>125,653</u>	<u>1,869</u>	<u>633,704</u>
<u>Expenditures</u>							
Current:							
General government	147,637	0	0	0	0	0	147,637
Public safety	2,416	0	75,596	0	0	0	78,012
Public works	13,205	70,595	0	91,171	12,616	0	187,587
Community and economic development	11,987	0	0	0	0	0	11,987
Recreation and cultural	100	0	0	0	0	280	380
Other functions	13,740	0	0	0	0	0	13,740
Capital outlay	3,013	0	0	0	64,753	0	67,766
Debt service:							
Principal	590	0	0	0	0	0	590
Interest and fiscal charges	194	0	0	0	0	0	194
Total expenditures	<u>192,882</u>	<u>70,595</u>	<u>75,596</u>	<u>91,171</u>	<u>77,369</u>	<u>280</u>	<u>507,893</u>
Excess of revenue over (under) expenditures	<u>57,065</u>	<u>(18,465)</u>	<u>19,818</u>	<u>17,520</u>	<u>48,284</u>	<u>1,589</u>	<u>125,811</u>
Other Financing Sources (Uses):							
Capital lease proceeds	3,013	0	0	0	0	0	3,013
Operating transfers in	0	20,000	0	0	0	29,765	49,765
Operating transfers out	(49,765)	0	0	0	0	0	(49,765)
Total other financing sources (uses)	<u>(46,752)</u>	<u>20,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,765</u>	<u>3,013</u>
Excess of revenue and other sources over expenditures and other uses	10,313	1,535	19,818	17,520	48,284	31,354	128,824
Fund balances - beginning of year	<u>392,935</u>	<u>97,069</u>	<u>111,457</u>	<u>234,663</u>	<u>469,471</u>	<u>36,445</u>	<u>1,342,040</u>
Fund balances - end of year	<u>\$ 403,248</u>	<u>\$ 98,604</u>	<u>\$ 131,275</u>	<u>\$ 252,183</u>	<u>\$ 517,755</u>	<u>\$ 67,799</u>	<u>\$ 1,470,864</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2007

Total net change in fund balances - governmental funds	\$	128,824
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets reported as capital outlays in the governmental funds	\$	67,766	
Current year depreciation expense		<u>(6,650)</u>	
Net difference			61,116

The governmental funds report capital lease proceeds as an other financing source, while repayment of lease principal is reported as an expenditure. The net effect of this difference in the treatment of capital lease proceeds is as follows:

Capital lease proceeds	(3,013)
------------------------	---------

Principal repayments on capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Capital lease payable	<u>590</u>
-----------------------	------------

Change in net assets of governmental activities	\$	<u>187,517</u>
---	----	----------------

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
March 31, 2007

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 1,116,094
Investments (Note 2)	973,841
Receivables:	
Taxes	2,536
Special assessments	768,216
Accounts	32,488
Due from other funds (Note 3)	<u>18,375</u>
Total current assets	<u>2,911,550</u>
Noncurrent assets:	
Investment in Huron Shore Regional Utility Authority (Note 1)	476,341
Bond issuance costs, net	33,207
Capital assets, net (Note 6)	<u>3,626,732</u>
Total noncurrent assets	<u>4,136,280</u>
Total Assets	<u>7,047,830</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	11,735
Accrued interest	40,787
Due to other funds (Note 3)	12,311
Contracts payable, current (Note 7)	151,175
General obligation bonds payable, current (Note 7)	<u>62,000</u>
Total current liabilities	<u>278,008</u>
Noncurrent liabilities:	
Contracts payable (Note 7)	659,610
General obligation bonds payable (Note 7)	<u>926,000</u>
Total noncurrent liabilities	<u>1,585,610</u>
Total Liabilities	<u>1,863,618</u>
<u>Net Assets</u>	
Investment in capital assets, net of related debt	1,946,530
Unrestricted	<u>3,237,682</u>
Total Net Assets	<u>\$ 5,184,212</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND

For the Year Ended March 31, 2007

	<u>Enterprise Fund</u>
	<u>Water and</u> <u>Sewer Fund</u>
<u>Operating Revenue</u>	
Charges for services	\$ 371,119
Other	<u>3,632</u>
Total operating revenue	<u>374,751</u>
 <u>Operating Expenses</u>	
Salaries and wages	39,308
Payroll taxes and fringe benefits	10,021
Operating supplies	12,423
Professional fees and services	42,501
Insurance	1,902
Water and sewer	38,883
Vehicle	1,779
Other	11,484
Depreciation	<u>98,744</u>
Total operating expenses	<u>257,045</u>
 Operating income	 <u>117,706</u>
 <u>Non-operating Revenue (Expenses)</u>	
Current property taxes	52,811
Special assessments	18,692
Interest on special assessments	53,491
Interest income	88,205
Amortization bond costs	(1,336)
Interest expense	(119,593)
Paying agent fees	<u>(2,489)</u>
Total non-operating revenue (expenses)	<u>89,781</u>
 Change in net assets	 207,487
 Net assets - beginning of year	 <u>4,976,725</u>
 Net assets - end of year	 <u>\$ 5,184,212</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
For the Year Ended March 31, 2007

	<u>Enterprise Fund</u> Water and Sewer Fund
<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ 368,087
Payments for operating expenses	<u>(162,754)</u>
Net cash provided by operating activities	<u>205,333</u>
<u>Cash Flows From Noncapital Financing Activities</u>	
Property taxes received	52,811
Special assessments received	148,988
Cash paid to other funds	<u>(4,742)</u>
Net cash provided by noncapital financing activities	<u>197,057</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(16,320)
Principal paid on long-term debt	(330,786)
Interest and fees paid on long-term debt	<u>(112,136)</u>
Net cash used by capital and related financing activities	<u>(459,242)</u>
<u>Cash Flows From Investing Activities</u>	
Redemption (purchase) of investment securities	4,232
Interest on investments	<u>75,973</u>
Net cash provided by investing activities	<u>80,205</u>
Net increase in cash and cash equivalents	23,353
Cash and cash equivalents at beginning of year (Note 1)	<u>1,092,741</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 1,116,094</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>	
Operating income	\$ 117,706
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	98,744
Change in assets and liabilities:	
Accounts receivable	(6,664)
Accounts payable	<u>(4,453)</u>
Net cash provided by operating activities	<u>\$ 205,333</u>

Noncash Capital and Related Financing Activities

The Water and Sewer Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$17,901. This was the result of an increase in the Township of Baldwin's actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
March 31, 2007

	<u>Tax Account</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	\$ <u>4</u>
<u>LIABILITIES</u>	
Due to others	\$ 1
Due to other funds (Note 3)	<u>3</u>
Total Liabilities	\$ <u>4</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Baldwin have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Township of Baldwin operates under an elected Township Board (five members) and provides services to its residents in many areas including road maintenance, fire protection, refuse collection and street lighting. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Venture

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Township of Baldwin's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 4.66% of the total bond issue of \$7,930,000 or \$369,538. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Township of Baldwin is making payments through ad-valorem taxes and charges for services.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Township of AuSable, City of Tawas City and the Charter Township of Oscoda. The most current estimate of the Township's share is 5.53% of the total bond issue of \$1,300,000 or \$71,890. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Township of Baldwin is making payments through ad-valorem taxes and charges for services.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Joint Venture (Continued)

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Township of Baldwin's contribution for the year ended March 31, 2007 was \$32,834. The current value of the Township of Baldwin's investment in the Huron Shore Regional Utility Authority is \$476,341. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

C. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Road Fund – This fund is used to account for the street operations of the Township. Revenues are derived primarily from a special voted tax for street improvements.

Fire Fund – This fund accounts for tax revenues used for fire protection of the Township.

Refuse Collection Fund – This fund is used to account for tax revenue used for refuse collection in the Township.

Downtown Development Authority Fund – This fund is used to account for tax revenues used for construction and improvements.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the Township's major enterprise fund:

Water and Sewer Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Baldwin Township as well as the Township's financial participation in the Huron Shore Regional Utility Authority. This fund also accounts for the revenues and expenditures required to operate the Township's sewer system including all related appurtenances such as mains and pump stations. Revenues required to operate both systems are derived primarily from user fees.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Township of Baldwin uses these funds to account for property tax collections.

E. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus.

All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available, means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Township, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax) grants, interest, and rent.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

J. Receivables

Receivables at March 31, 2007, consist of accounts (fees), taxes, special assessments and charges for sewer and water services due from various customers. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

No allowance for doubtful accounts was deemed necessary at March 31, 2007.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances to which a fiduciary fund is a party are treated as external receivables and payables.

L. Deferred Charges

Bond issuance costs are deferred and amortized over the life of the bond using the straight-line method since the results are not significantly different from the effective interest method.

M. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property and plant is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	40 years
Land Improvements	20 years
Machinery and Equipment	7 – 10 years
Infrastructure	50 years
Vehicles	5 years

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Governmental Fund Balance Designations

The Township reserves those portions of governmental fund balance which are segregated for a specific future use. Fund balance designations have been established for future park and recreational expenses.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are charges for services for water and sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 1,373,974	\$ 1,116,094	\$ 4	\$ 2,490,072
Investments	<u>16,005</u>	<u>973,841</u>	<u>0</u>	<u>989,846</u>
Total Current Assets	<u>\$ 1,389,979</u>	<u>\$ 2,089,935</u>	<u>\$ 4</u>	<u>\$ 3,479,918</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts and certificates of deposit)	\$ 1,810,112
Investments in financial institution pooled funds	<u>1,669,806</u>
Total	<u>\$ 3,479,918</u>

As of March 31, 2007, the Township had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 1,669,806</u>	Daily

Interest Rate Risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to change in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Township's investment pools are unrated.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2007, \$1,544,615 of the Township's bank balance of \$1,811,857 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Township's investment policy which is in accordance with State law.

Foreign Currency Risk

The Township's investment policy does not address foreign currency risk.

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

The classification of cash and cash equivalents and investments on the balance sheet/statement of net assets is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 40 is as follows:

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 2,490,072	\$ 989,846
Certificate of deposit maturing in greater than 90 days	989,846	(989,846)
Municipal investment account pooled funds	<u>(1,669,806)</u>	<u>1,669,806</u>
GASB Statement No. 40	<u>\$ 1,810,112</u>	<u>\$ 1,669,806</u>

NOTE 3 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of March 31, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 5,880	\$ 7,442
Road Fund	1,005	2,001
Fire Fund	2,131	21,814
Refuse Collection Fund	3,298	4,662
Downtown Development Authority Fund	<u>17,544</u>	<u>0</u>
Total Major Governmental Funds	<u>29,858</u>	<u>35,919</u>
Major Enterprise Funds:		
Water and Sewer Fund	<u>18,375</u>	<u>12,311</u>
Fiduciary Funds	<u>0</u>	<u>3</u>
	<u>\$ 48,233</u>	<u>\$ 48,233</u>

The amounts of interfund receivables and payables for the primary government as of March 31, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 5,877	Water and Sewer Fund	\$ 5,877
General Fund	3	Tax Account Fund	3
Road Fund	1,005	Water and Sewer Fund	1,005
Fire Fund	2,131	Water and Sewer Fund	2,131
Refuse Collection Fund	3,298	Water and Sewer Fund	3,298
Downtown Development Authority Fund	17,544	Fire Fund	17,544
Water and Sewer Fund	7,442	General Fund	7,442
Water and Sewer Fund	2,001	Road Fund	2,001
Water and Sewer Fund	4,270	Fire Fund	4,270
Water and Sewer Fund	<u>4,662</u>	Refuse Collection Fund	<u>4,662</u>
Totals	<u>\$ 48,233</u>		<u>\$ 48,233</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 4 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. No liabilities have been incurred as of March 31, 2007.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. Real and personal property for the December 1, 2006 levy had a taxable value of \$97,524,335 and equalized at \$139,910,900, representing 50% of estimated current market value. The 2006 operating tax rates are currently .7480 mills for operating, 1.0441 for fire protection, 1.1400 for refuse collection, .6000 for debt retirement and .4892 for roads.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 26,342	\$ 0	\$ 0	\$ 26,342
Capital Assets Being Depreciated:				
Buildings and Improvements	176,292	0	0	176,292
Land Improvements	6,190	0	0	6,190
Machinery and Equipment	0	28,723		28,723
Infrastructure	64,354	39,043	0	103,397
Subtotal	<u>246,836</u>	<u>67,766</u>	<u>0</u>	<u>314,602</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	23,980	4,154	0	28,134
Land Improvements	155	309	0	464
Machinery and Equipment	0	402	0	402
Infrastructure	3,204	1,785	0	4,989
Subtotal	<u>27,339</u>	<u>6,650</u>	<u>0</u>	<u>33,989</u>
Net Capital Assets Being Depreciated	<u>219,497</u>	<u>61,116</u>	<u>0</u>	<u>280,613</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 245,839</u>	<u>\$ 61,116</u>	<u>\$ 0</u>	<u>\$ 306,955</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 6 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Infrastructure	\$ 4,773,871	\$ 0	\$ 0	\$ 4,773,871
Vehicles	<u>0</u>	<u>16,320</u>	<u>0</u>	<u>16,320</u>
Subtotal	<u>4,773,871</u>	<u>16,320</u>	<u>0</u>	<u>4,790,191</u>
Less Accumulated Depreciation for:				
Infrastructure	1,064,715	95,480	0	1,160,195
Vehicles	<u>0</u>	<u>3,264</u>	<u>0</u>	<u>3,264</u>
Subtotal	<u>1,064,715</u>	<u>98,744</u>	<u>0</u>	<u>1,163,459</u>
Business-Type Activities Total Capital Assets - Net of Depreciation	<u>\$ 3,709,156</u>	<u>\$ (82,424)</u>	<u>\$ 0</u>	<u>\$ 3,626,732</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities :	
General government	\$ 4,865
Public works	<u>1,785</u>
Total Governmental Activities	<u>\$ 6,650</u>
Business-Type Activities :	
Water and Sewer	<u>\$ 98,744</u>

NOTE 7 - LONG-TERM DEBT

At March 31, 2007, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u>		

A. Contracts Payable

Joint water supply system agreement through the Iosco County Board of Public Works to finance the cost of an extension of the water system to the Tawas Point Coastguardville area. The construction was funded with the proceeds of the \$575,000 Iosco County Limited Tax General Obligation Bonds dated April 1, 1993 due in annual installments through November 1, 2013, bearing interest rates from 3.25% to 5.80%.

\$ 0 \$ 250,000

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u> (Continued)		
A. Contracts Payable (Continued)		
Sewer system agreement to finance the cost of an extension of the sewer system to the Tawas Point Coastguardville area. The construction was funded with the proceeds of the \$650,000 Tawas Utility Authority Limited Tax General Obligation Bonds dated December 1, 1992 due in annual installments through May 1, 2012, bearing interest rates from 4% to 6.45%.	\$ 0	\$ 280,000
Joint sewer agreement to finance the cost of constructing a sewer lift station. The construction was funded with the proceeds of the \$460,000 City of East Tawas Sewage Disposal System Revenue Bonds dated April 2, 1997 due in annual installments through December 1, 2008 and bearing interest from 4.10% - 5.30%.	0	125,000
Joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water Sewer System No. 1, with the Charter Townships of AuSable and Oscoda, and the City of Tawas City bonds dated November 1, 1995 due in annual installments through May 1, 2015 and bearing interest at 4.4% to 5.625%. The most current estimate of the Township's share is 5.53% of the total bond issue of \$1,300,000 or \$71,890.	0	49,770
Joint water supply system agreement with the Cities of East Tawas and Tawas City, and the Charter Townships of AuSable and Oscoda through the Huron Shore Regional Utility Authority to finance the cost of constructing a new water supply system to serve both cities and the three Townships. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991 due in annual installments through November 1, 2010, bearing interest rates at 4% to 5.65%. The most current estimate of the Township's share is 4.66% of the total bond issue of \$7,930,000 or \$369,538.	0	106,015
	0	810,785
B. General Obligation Bonds Payable:		
\$725,000 Water Special Assessment Bonds dated November 1, 1999. For the purpose of paying part of the cost of making various improvements in the Huron Hills Shore special assessment district. The bonds bear interest at 5.5% and are due in annual installments through 2019.	0	480,000
\$200,000 Water Special Assessment Bonds dated September 1, 2000. For the purpose of paying part of the cost of making various improvements in the AuSable Point special assessment district. The bonds bear interest from 4.75% to 5.9% and are due in annual installments through 2020.	0	140,000

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u> (Continued)		
B. General Obligation Bonds Payable: (Continued)		
\$355,000 Water Special Assessment Bonds dated January 1, 2003. For the purpose of paying part of the cost of making various improvements in the Birch Drive special assessment district. The bonds bear interest from 3.75% to 5% and are due in annual installments through 2022.	\$ 0	\$ 305,000
\$65,000 Water Special Assessment Bonds dated May 1, 2004. For the purpose of paying part of the cost of making various improvements in the Maple Avenue special assessment district. The bonds bear interest from 6.5% to 6.7% and are due in annual installments through 2024.	<u>0</u> <u>0</u>	<u>63,000</u> <u>988,000</u>
C. Capital Lease Payable		
Lease purchase agreement with Dolphin Capital for the purchase of a Sharp AR-M237 copier on July 21, 2006. The lease is payable in monthly installments of \$98 including interest at 10.549% through July 2009. The lease is secured by the equipment and has a one dollar end of lease buy out.	<u>2,423</u> <u>2,423</u>	<u>0</u> <u>0</u>
Total Primary Government	<u>\$ 2,423</u>	<u>\$ 1,798,785</u>

D. Changes in Long Term Liabilities

	<u>Balance April 1, 2006</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance March 31, 2007</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Capital lease payable	<u>\$ 0</u>	<u>\$ 3,013</u>	<u>\$ 590</u>	<u>\$ 2,423</u>	<u>\$ 966</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 1,057,670	\$ 0	\$ 246,885	\$ 810,785	\$ 151,175
General obligation bonds payable	<u>1,054,000</u>	<u>0</u>	<u>66,000</u>	<u>988,000</u>	<u>62,000</u>
Total primary government	<u>\$ 2,111,670</u>	<u>\$ 0</u>	<u>\$ 312,885</u>	<u>\$ 1,798,785</u>	<u>\$ 213,175</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 7 - LONG-TERM DEBT (CONTINUED)

D. Changes in Long Term Liabilities (Continued)

The annual aggregate maturities for all debt outstanding as of March 31, 2007 are as follows:

Primary Government

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 151,175	\$ 45,928	\$ 197,103
2009	175,711	37,387	213,098
2010	100,477	27,468	127,945
2011	101,626	21,543	123,169
2012	105,530	15,171	120,701
2013 – 2016	<u>176,266</u>	<u>12,097</u>	<u>188,363</u>
	<u>\$ 810,785</u>	<u>\$ 159,594</u>	<u>\$ 970,379</u>

General Obligation Bonds Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 62,000	\$ 50,189	\$ 112,189
2009	63,000	47,025	110,025
2010	63,000	43,826	106,826
2011	63,000	40,621	103,621
2012	63,000	37,389	100,389
2013 - 2017	335,000	136,344	471,344
2018 - 2022	299,000	44,457	343,457
2023 - 2025	<u>40,000</u>	<u>2,130</u>	<u>42,130</u>
	<u>\$ 988,000</u>	<u>\$ 401,981</u>	<u>\$ 1,389,981</u>

Capital Lease Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 966	\$ 210	\$ 1,176
2009	1,073	103	1,176
2010	<u>384</u>	<u>8</u>	<u>392</u>
	<u>\$ 2,423</u>	<u>\$ 321</u>	<u>\$ 2,744</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 8 - PENSION PLAN

The Township has a defined contribution pension plan with Auto Owners Insurance Company effective February 1992. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date, have attained age 18. Vesting is 100% upon entering the plan. Each employee must contribute 7.0% of their gross earnings to the plan. The Township is required to contribute an amount equal to 7.0% of the employee's gross earnings.

During the year, the Township did not have any current employees participating in the plan. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE 9 - OPERATING TRANSFERS

During 2007, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 0	\$ 49,765
Road Fund	<u>20,000</u>	<u>0</u>
Total Major Funds	20,000	49,765
Non-major Governmental Funds	<u>29,765</u>	<u>0</u>
	<u>\$ 49,765</u>	<u>\$ 49,765</u>

During 2007, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Road Fund	\$ 20,000	General Fund	\$ 20,000
Parks and Recreation Fund	9,765	General Fund	9,765
Capital Improvement Fund	<u>20,000</u>	General Fund	<u>20,000</u>
Total	<u>\$ 49,765</u>	Total	<u>\$ 49,765</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TOWNSHIP OF BALDWIN
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2007

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2007, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Capital Outlay	\$ 0	\$ 3,013	\$ 3,013
Refuse Collection Fund/Public Works	\$ 90,990	\$ 91,171	\$ 181
Downtown Development Authority Fund/Capital Outlay	\$ 43,280	\$ 64,753	\$ 21,473

NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of the insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 114,720	\$ 114,720	\$ 102,627	\$ (12,093)
Licenses and permits	3,900	3,900	1,945	(1,955)
State grants and revenue	121,629	121,629	121,160	(469)
Charges for services	6,475	6,475	6,244	(231)
Interest earned	7,800	7,800	16,952	9,152
Other revenue	1,100	1,100	1,019	(81)
Total revenue	<u>255,624</u>	<u>255,624</u>	<u>249,947</u>	<u>(5,677)</u>
<u>Expenditures</u>				
Current:				
General government				
Township board	6,444	8,259	6,502	1,757
Supervisor	25,534	25,795	23,661	2,134
Elections	2,475	2,727	2,696	31
Assessor	28,634	28,634	26,758	1,876
Legal and audit	13,000	12,460	10,460	2,000
Board of review	1,300	1,300	870	430
Clerk	25,534	25,918	24,797	1,121
Treasurer	25,907	26,190	26,008	182
Buildings and grounds	28,026	29,016	25,885	3,131
Public safety				
Sting	0	2,416	2,416	0
Public works				
Highways, streets and bridges	100	100	0	100
Street lighting	13,253	13,253	13,205	48
Community and economic development				
Planning commission	19,949	20,006	11,987	8,019
Recreation and cultural				
Recreation	35	100	100	0
Other functions				
Insurance and bonds	10,032	11,652	11,651	1
Miscellaneous	3,054	3,054	2,089	965
Capital outlay	0	0	3,013	(3,013)
Debt service:				
Principal	1,693	948	590	358
Interest and fiscal charges	556	311	194	117
Total expenditures	<u>205,526</u>	<u>212,139</u>	<u>192,882</u>	<u>19,257</u>
Excess of revenue over expenditures	<u>50,098</u>	<u>43,485</u>	<u>57,065</u>	<u>13,580</u>
Other Financing Sources (Uses):				
Capital lease proceeds	0	0	3,013	3,013
Operating transfers out	(43,465)	(49,765)	(49,765)	0
Total other financing sources (uses)	<u>(43,465)</u>	<u>(49,765)</u>	<u>(46,752)</u>	<u>3,013</u>
Excess of revenue and other sources over (under) expenditures and other uses	6,633	(6,280)	10,313	16,593
Fund balances - beginning of year	<u>392,935</u>	<u>392,935</u>	<u>392,935</u>	<u>0</u>
Fund balances - end of year	<u>\$ 399,568</u>	<u>\$ 386,655</u>	<u>\$ 403,248</u>	<u>\$ 16,593</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 ROAD FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 45,659	\$ 45,659	\$ 42,916	\$ (2,743)
Charges for services	5,130	5,130	5,657	527
Interest earned	800	800	3,557	2,757
Total revenue	51,589	51,589	52,130	541
<u>Expenditures</u>				
Current:				
Public works	62,000	70,602	70,595	7
Excess of revenue over (under) expenditures	(10,411)	(19,013)	(18,465)	548
Other Financing Sources:				
Operating transfers in	20,000	20,000	20,000	0
Excess of revenue and other sources over expenditures	9,589	987	1,535	548
Fund balances - beginning of year	97,069	97,069	97,069	0
Fund balances - end of year	\$ 106,658	\$ 98,056	\$ 98,604	\$ 548

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FIRE FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Taxes	\$ 97,454	\$ 87,929	\$ 91,609	\$ 3,680
Interest earned	<u>1,450</u>	<u>1,450</u>	<u>3,805</u>	<u>2,355</u>
Total revenue	98,904	89,379	95,414	6,035
<u>Expenditures</u>				
Current:				
Public safety	<u>77,510</u>	<u>77,510</u>	<u>75,596</u>	<u>1,914</u>
Excess of revenue over expenditures	21,394	11,869	19,818	7,949
Fund balances - beginning of year	<u>111,457</u>	<u>111,457</u>	<u>111,457</u>	<u>0</u>
Fund balances - end of year	<u>\$ 132,851</u>	<u>\$ 123,326</u>	<u>\$ 131,275</u>	<u>\$ 7,949</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 REFUSE COLLECTION FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Taxes	\$ 107,404	\$ 97,005	\$ 100,026	\$ 3,021
Interest earned	<u>1,350</u>	<u>1,350</u>	<u>8,665</u>	<u>7,315</u>
Total revenue	108,754	98,355	108,691	10,336
 <u>Expenditures</u>				
Current:				
Public works	<u>90,990</u>	<u>90,990</u>	<u>91,171</u>	<u>(181)</u>
 Excess of revenue over expenditures	17,764	7,365	17,520	10,155
 Fund balances - beginning of year	<u>234,663</u>	<u>234,663</u>	<u>234,663</u>	<u>0</u>
 Fund balances - end of year	<u>\$ 252,427</u>	<u>\$ 242,028</u>	<u>\$ 252,183</u>	<u>\$ 10,155</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 DOWNTOWN DEVELOPMENT AUTHORITY FUND -
 SPECIAL REVENUE FUND
For the Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Taxes	\$ 83,879	\$ 83,879	\$ 95,430	\$ 11,551
Contributions from local units	0	0	12,533	12,533
Interest earned	<u>4,000</u>	<u>4,000</u>	<u>17,690</u>	<u>13,690</u>
Total revenue	<u>87,879</u>	<u>87,879</u>	<u>125,653</u>	<u>37,774</u>
<u>Expenditures</u>				
Current:				
Public works	31,270	31,270	12,616	18,654
Capital outlay	<u>43,280</u>	<u>43,280</u>	<u>64,753</u>	<u>(21,473)</u>
Total expenditures	<u>74,550</u>	<u>74,550</u>	<u>77,369</u>	<u>(2,819)</u>
Excess of revenue over expenditures	13,329	13,329	48,284	34,955
Fund balances - beginning of year	<u>469,471</u>	<u>469,471</u>	<u>469,471</u>	<u>0</u>
Fund balances - end of year	<u>\$ 482,800</u>	<u>\$ 482,800</u>	<u>\$ 517,755</u>	<u>\$ 34,955</u>

OTHER INFORMATION

TOWNSHIP OF BALDWIN
Iosco County, Michigan

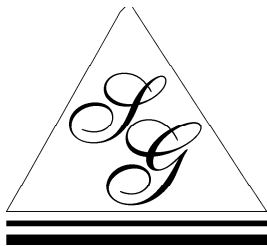
COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
March 31, 2007

	<u>Parks and Recreation Fund</u>	<u>Capital Improvement Fund</u>	<u>Gas Contingency Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	<u>\$ 9,884</u>	<u>\$ 54,052</u>	<u>\$ 3,863</u>	<u>\$ 67,799</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Fund Equity</u>				
Fund balances:				
Unreserved:				
Designated for parks and recreation	9,884	0	0	9,884
Undesignated, reported in:				
Special revenue funds	<u>0</u>	<u>54,052</u>	<u>3,863</u>	<u>57,915</u>
Total fund equity	<u>9,884</u>	<u>54,052</u>	<u>3,863</u>	<u>67,799</u>
Total Liabilities and Fund Equity	<u>\$ 9,884</u>	<u>\$ 54,052</u>	<u>\$ 3,863</u>	<u>\$ 67,799</u>

TOWNSHIP OF BALDWIN
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended March 31, 2007

	Parks and Recreation Fund	Capital Improvement Fund	Gas Contingency Fund	Total Other Governmental Funds
<u>Revenue</u>				
Interest earned	\$ 399	\$ 1,217	\$ 253	\$ 1,869
<u>Expenditures</u>				
Current:				
Recreation and cultural	<u>280</u>	<u>0</u>	<u>0</u>	<u>280</u>
Excess of revenue over expenditures	119	1,217	253	1,589
Other Financing Sources:				
Operating transfers in	<u>9,765</u>	<u>20,000</u>	<u>0</u>	<u>29,765</u>
Excess of revenue and other sources over expenditures	9,884	21,217	253	31,354
Fund balances - beginning of year	<u>0</u>	<u>32,835</u>	<u>3,610</u>	<u>36,445</u>
Fund balances - end of year	<u>\$ 9,884</u>	<u>\$ 54,052</u>	<u>\$ 3,863</u>	<u>\$ 67,799</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

June 25, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Township Board
Township of Baldwin
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Baldwin, as of and for the year ended March 31, 2007, which collectively comprise the Township of Baldwin's basic financial statements and have issued our report thereon dated June 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Baldwin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Baldwin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Baldwin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Baldwin's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Baldwin's financial statements that is more than inconsequential will not be prevented or detected by the Township of Baldwin's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Financial Statement Preparation

We noted that management and accounting personnel lack the skills and knowledge necessary to apply generally accepted accounting principles in recording the entity's financial transactions in order to prepare its financial statements.

Cash Receipt System

During our audit fieldwork, we noted that the total cash and check breakdown was not noted on the cash receipt. This information must be detailed on each receipt to ensure that all cash and checks received were deposited properly in the bank account.

Members of the Township Board
Township of Baldwin
June 25, 2007
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Baldwin's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

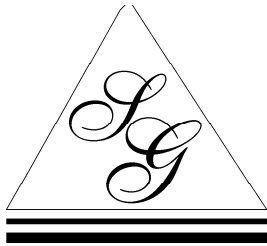
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Baldwin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Township in a separate letter dated June 25, 2007.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

June 25, 2007

Members of the Township Board
Township of Baldwin
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Baldwin for the year ended March 31, 2007, and have issued our report thereon dated June 25, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 31, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Baldwin. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Baldwin's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Baldwin are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township of Baldwin during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Baldwin's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Baldwin, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Baldwin's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Baldwin's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls and test of compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations :

Financial Statement Preparation

We noted that management and accounting personnel lack the skills and knowledge necessary to apply generally accepted accounting principles in recording the entity's financial transactions in order to prepare its financial statements.

Cash Receipt System

During our audit fieldwork, we noted that the total cash and check breakdown was not noted on the cash receipt. This information must be detailed on each receipt to ensure that all cash and checks received were deposited properly in the bank account.

Budget Control

The Township of Baldwin's General Fund, Refuse Collection Fund, and Downtown Development Authority Fund included expenditures that exceeded appropriated amounts. We recommend that the Board continue to review and amend the budget periodically as a matter of good fiscal policy in accordance with the Uniform Budgeting and Accounting Act. When adopting and amending the budget, the Board should include the effects of year-end adjustments required by the modified accrual basis of accounting.

Closing Bank Accounts

Several bank accounts were closed during the year in the Water and Sewer Fund due to the combining of these funds. Authorization to close these accounts was not reflected in the Board meeting minutes. The Township Board should approve all openings and closings of bank accounts.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grault & Co., P.C.